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Review of the efficiency of the administrative and financial functioning of the United Nations

Procurement reform

Report of the Secretary-General

Summary

The present report is submitted to the General Assembly pursuant to its resolution 52/226 of 27 April 1998. The Secretary-General is pleased to report that measures implemented following the recommendations and suggestions of the General Assembly, the Advisory Committee on Administrative and Budgetary Questions and oversight bodies have significantly strengthened the transparency, competitiveness and fairness of the procurement system in the United Nations. In addition, the recommendations of the High-level Group of Experts on Procurement have been fully acted upon. The Secretary-General firmly believes that reform is an ongoing process and intends to take further action to improve the United Nations procurement system.

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I. Introduction

1. The present report is submitted to the General Assembly pursuant to its resolution 52/226 of 27 April 1998. It provides information on the developments and accomplishments achieved in the area of procurement reform pursuant to the recommendations, decisions, suggestions and concerns expressed by the General Assembly, the Advisory Committee on Administrative and Budgetary Questions and the oversight bodies, as well as the High-level Group of Experts on Procurement. The Secretary-General believes that the report reflects the strong commitment of the Under-Secretary-General for Management and the Assistant Secretary-General for Central Support Services in ensuring that the United Nations procurement system is effective, efficient, transparent and fully responsive to the needs of the Organization. The Secretary-General recognizes that the achievements to date notwithstanding, procurement reform is an ongoing process requiring constant attention. In this respect, and as set forth more fully in paragraph 24 below, the ongoing procurement reform, including the reorganization of the Procurement Division, will address strategic and policy issues as well as procurement operations, thus ensuring an integrated approach to the realization of the enhanced procurement functions within the United Nations. The Secretary-General's responses to the issues raised by the General Assembly are provided in the same order as the paragraphs in resolution 52/226 for ease of reference.

II. The Secretary-General's comments

"1. *Calls upon* the Secretary-General to ensure strict adherence to the regulations and rules governing the procurement process"

2. The Secretary-General wishes to reassure the General Assembly that he has mandated strict adherence to the regulations and rules governing the procurement process. Furthermore, whenever an exception is sought, whether specifically enumerated or otherwise, full justification must be provided and approved by the Assistant Secretary-General for Central Support Services or other officials duly authorized under financial rule 110.16 (b), and this will be reflected in the Procurement Manual. Finally, the Secretary-General wishes to note that the Organization's procurement activities receive close scrutiny by the various oversight bodies on a continuous basis, thus ensuring adherence.

"2. *Notes with concern* that its resolution 51/231 and a number of the recommendations contained in the report of the High-level Group of Experts on Procurement remain largely unimplemented, and therefore, calls on the Secretary-General to ensure their full implementation without any further delay"

3. The Secretary-General notes that, as indicated in paragraph 2 of his report to the General Assembly at its fifty-first session (A/C.5/51/9, dated 29 November 1996), he had already taken into account all relevant recommendations made by the independent High-level Group of Experts on Procurement. Of the 27 recommendations contained in the report of the Group of Experts, 19 had been accepted and implemented by then; 5 had been deemed inadvisable for the reasons specified in his report (for example, the recommendation that public bid openings be stopped was considered inconsistent with the Organization's goal of promoting transparency in procurement); and only 3 recommendations were then pending. Subsequently 2 additional recommendations were implemented: (a) the functional responsibility for procurement on behalf of the Department of Development Support and Management Services (now part of the Department of Economic and Social Affairs) was transferred to the Procurement Division effective February 1998; and (b) the recommendation that a larger imprest be given to sector levels in field missions to use for day-to-day requirements was referred to the Director of the Field Administration and Logistics Division for appropriate action in consultation with the Controller. Accordingly, as at 27 April 1998, the date of General Assembly resolution 52/226, only one recommendation was still under consideration, namely, recommendation 27, that an independent complaint bureau/supplier relations manager (i.e., "ombudsman") be appointed. However, as is discussed in connection with item 25 below, measures had already been taken to address the issue raised in that recommendation.

"3. *Notes* that the revised procurement manual has not been issued, and requests the Secretary-General to publish the manual no later than 31 March 1998, as stated in his report"

4. The Secretary-General is pleased to confirm that the revised Procurement Manual (version 01) dated 31 March 1998 has been issued. Moreover, the Secretary-General wishes to observe that the Under-Secretary-General for Management has written to all permanent missions advising them of the availability of the Manual. Finally, it should be noted that the revised Manual will be made available on the

Intranet so that, to the maximum extent practicable, all United Nations offices, at and away from Headquarters, may access and/or print it, as necessary.

"4. *Also notes* the delay in submission of proposals for revision of the Financial Regulations and Rules of the United Nations, which may be necessary to facilitate the implementation of the procurement reform process, and requests the Secretary-General to submit such proposals to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions, for consideration by the Assembly at the second part of its resumed fifty-second session"

5. The Financial Regulations and Rules of the United Nations govern all procurement activities for which the Secretary-General has administrative responsibility. Regulation 10.5 as well as rules 110.16 to 110.24 and 110.35 to 110.37 pertain to procurement activities. As the General Assembly is aware, while it revises and adopts new regulations, the Secretary-General revises and adopts new rules. The last time the regulations and rules were published in their entirety was in 1985 (ST/SGB/Financial Rules/1/Rev.3). However, modifications and amendments to the rules have been made since then, most recently in July 1996. At that time, the Under-Secretary-General of the Department of Administration and Management (since renamed the Department of Management) increased the thresholds for procurement at and away from Headquarters, pursuant to the recommendations of the High-level Group of Experts on Procurement. The Under-Secretary-General for Management has also undertaken, and is presently completing, a comprehensive review of all of the United Nations regulations and rules with the intention that a revised document (ST/SGB/Financial Rules/Rev.4) will be issued by the Secretary-General during the term of the fifty-third session of the General Assembly. With respect to procurement within the framework of common services, the United Nations, together with its funds and programmes, is presently harmonizing appropriate regulations and rules. Proposed new regulations are being submitted by the United Nations Development Programme (UNDP) and the United Nations Population Fund to their respective executive boards through the Advisory Committee on Administrative and Budgetary Questions. The United Nations Office for Project Services will also be presenting similar regulations in the near future.

"5. Requests the Secretary-General, in the context of his next report on procurement reform, to evolve and provide the standards for measuring the efficiency of procurement, taking into account the optimal duration of the procurement decision-making process, the total workload in the Procurement Division of the Secretariat and the cost-efficiency of procurement, against which the performance should be measured"

6. The Secretary-General recognizes that the main aim of procurement reform is to improve the efficiency and cost-effectiveness of the procurement function. This is also under consideration by the Task Force on Common Services. As explained elsewhere in the present report, a number of initiatives are being taken to improve operations in the entire supply chain, that is, in the Procurement Division and other units involved in the procurement function. These include better procurement planning by requisitioning units, streamlining the procurement process in the Procurement Division and by the Headquarters Committee on Contracts and making necessary changes to the procurement framework, including regulations, rules and refinements in the Procurement Manual. Establishment of valid and worthwhile standards can only be achieved when considering the entirety of the supply chain. Focusing on the Procurement Division in isolation from other components of the chain would not achieve the desired objectives. Meanwhile, the Secretary-General would like to inform the General Assembly of the results of a comparison of operating costs within the Procurement Division (salaries, equipment and supplies) with the volume of procurement undertaken against those costs. For calendar year 1997, the Organization spent approximately $6.2 million against a total procurement value of $328 million. Accordingly, the cost of procurement amounted to 1.9 per cent.

"6. *Notes* the decline in *ex post facto* cases, and underscores the need to reduce further the number of such cases through better procurement planning"

7. The Secretary-General appreciates the recognition that has been accorded to his efforts at reducing *ex post facto* and partially *ex post facto* cases to an absolute minimum. As the table reveals, for calendar years 1995, 1996 and 1997 as well as for the first six months of 1998, the total number of *ex post facto* and partial *ex post facto* cases have declined

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Year	*Number of cases*	*(5) + (6)*	*Percentage of (5) + (6)*	*Number of partial ex post facto cases*	*Number of ex post facto cases*	*Value of cases*	*Percentage value of partial ex post facto cases*	*Percentage value of ex post facto cases*	*Percentage of (8) + (9)*
1995	1 058	500	47.38	296 (28.10%*)	204 (19.28%*)	$1 118 198 195	31.87	18.81	50.68
1996	553	226	40.87	127 (22.97%*)	99 (17.90%*)	$528 000 975	18.28	14.32	32.6
1997	412	71	17.23	38 (9.22%*)	33 (8.01%*)	$360 729 605	7.70	5.28	12.98
1998 (1 Jan –30 June)	122	11	9.02	5 (4.10%*)	6 (4.92%*)	$148 066 683	9.58	4.96	14.54

* Percentage of total number of cases

dramatically, from 47.4 per cent in 1995 to 9 per cent for the first six months of 1998 and, by dollar value, from 50.68 per cent for 1995 to 14.54 per cent for the first six months of 1998.

8. In this connection, the Secretary-General respectfully refers the General Assembly to his statements in paragraphs 39 and 40 of document A/C.5/51/9, as follows:

> "39. The Assistant Secretary-General for Conference and Support Services and the Assistant Secretary-General for Planning and Support, Department of Peacekeeping Operations, have been working very closely to eliminate, to the maximum extent possible, delayed presentations to the Headquarters Committee on Contracts, simply as *ex post facto* cases, without any justification.
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> "40. It should be noted, however, that while further improvements will be achieved, all *ex post facto* or partial *ex post facto* cases cannot be eliminated totally. In some cases, for example, a mandate of a particular mission is either established or extended on extremely short notice, and legally no contractual commitments can be made before then. In some cases arrangements through letters of assist are used for the transportation of troops by Governments using their own national carriers to meet operational requirements, prior to internal United Nations approvals being obtained. *Ex post facto* cases also occur as a result of liquidation of missions, such as the United Nations Protection Force and the United Nations Assistance Mission in Rwanda. Hence, *ex post facto* cases cannot be eliminated altogether. However, as previously noted, all officials concerned have been directed to explain fully, and to justify each case in writing, bearing in mind their respective full accountability for their actions. The new procedures will be strictly monitored and enforced."

Management will continue to monitor these cases assiduously.

> **"7. *Requests* the Secretary-General to ensure that all departments and offices at Headquarters and in the field develop, in cooperation with the Procurement Division, annual procurement plans, which should be made publicly available"**

9. The Secretary-General agrees that procurement planning is essential for the effective and timely solicitation of bids or proposals, the award of contracts and the delivery of required goods and services. As the General Assembly is aware, all offices at and away from Headquarters are responsible for developing biennial procurement plans in connection with their biennial budgets, which are presented to the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee. The Field Administration and Logistics Division, Department of Peacekeeping Operations, is also responsible for such procurement planning on behalf of peacekeeping operations. Commencing with the next biennium, the Secretary-General has instructed all such offices to abstract from their approved budgets all major procurement items so that the Procurement Division may make information on such anticipated procurement public. However, it must be understood that such public disclosure shall not constitute a commitment on the part of the Organization to effect the purchase of any or all such items.

"8. *Emphasizes* the need for a sharper definition of exigency needs, and urges the Secretary-General to submit his proposal to the General Assembly, through the Advisory Committee, no later than 31 March 1998, as stated in his report"

10. Under financial rule 110.19,

> "Contracts may be awarded without calling for proposals, advertising or formal invitations to bid when: ... (*d*) The exigency of the service does not permit the delay attendant upon the issue of invitations to bid or the calling for proposals".

Exceptions to bidding on the basis of exigency will be approved by the Assistant Secretary-General for Central Support Services where the proposed procurement is both unavoidable and would either seriously interfere with or impede the operation of a programme or mission mandate or would endanger lives or property were it to remain unsatisfied for even a short period of time. In all such cases, full justification must be presented by the requisitioning department. While a bona fide exigency can occur at any time, whether at or away from Headquarters, it most commonly occurs in peacekeeping operations during the following periods: mission inception, when the issuance of a new mission mandate by the Security Council requires the deployment of significant numbers of troops or civilian personnel in a very short period of time which does not provide sufficient time for normal processing of requisitions; and mission expansion, where there is an unanticipated significant change in the mission's mandate requiring the introduction of substantial additional troops or civilian personnel and/or the prompt performance of unexpected and initially unfunded operations. In addition to the above, a bona fide exigency can also result when the supply of goods or services ceases abruptly, for example, due to the vendor's negligence or wilful default, the vendor's insolvency or other cessation of business, the existence of a business or contractual dispute between the vendor and the United Nations, governmental regulations or restrictions or a severe market shortage of the required goods; or upon the occurrence of an event constituting *force majeure*, for example, acts of God, war (whether declared or not), invasion, revolution, insurrection or other acts of a similar nature or force. The above text supersedes the text of document A/C.5/52/46 of 28 April 1998, section I, entitled "Sharper definition of exigency", and will soon be issued as a new administrative instruction and reflected in the Procurement Manual.

"9. *Requests* the Secretary-General to consider measures to improve the working methods of the Headquarters Committee on Contracts in order to enhance and expedite the procurement decision-making process"

11. The Secretary-General respectfully refers the General Assembly to the fourth report of the Advisory Committee on Administrative and Budgetary Questions (A/51/7/Add.3 of 4 December 1996), in which, in paragraph 16, the Advisory Committee welcomed the Secretary-General's report outlining the working methods of the Headquarters Committee on Contracts, including the policy guidelines for categories of cases to be submitted to the Headquarters Committee, its composition, general functions and meetings, as well as the *ex post facto* presentations to it. It should be noted that such guidelines were attached as an annex to the report and had been fully implemented as from 1 March 1996. The Assistant Secretary-General for Central Support Services shall continue to monitor and review the entire spectrum of the procurement process, from timely submission of requisitions through final review and approvals, with a view to further expediting the delivery of goods and services to the Organization. Finally, the Secretary-General should like to observe that the Headquarters Contract Committee is and should remain an advisory body providing advice to the Assistant Secretary-General for Central Support Services and such other officials duly authorized under financial rule 110.16 (b). This demarcation of responsibilities is critical in ensuring that the ultimate procurement decisions are made by a senior programme manager who is independent of the various requisitioning departments and who can provide an Organization-wide perspective on United Nations procurement needs.

"10. *Regrets* that the report of the Secretary-General does not contain information on the action taken regarding guidelines on methods of invitation to bid, which was recommended by the Board of Auditors in its report on procurement for the biennium ended 31 December 1995, and requests the Secretary-General to submit the guidelines, through the Advisory Committee, for consideration by the General Assembly at the second part of its resumed fifty-second session"

12. The Secretary-General should like to observe that, in 1995, the Procurement Division had abolished its old supplier roster and was in the process of requesting purged suppliers to reapply and simultaneously inviting new applicants to apply, as recommended by the High-level

Group of Experts on Procurement. The Secretary-General is pleased to inform the General Assembly that the evaluation criteria and procedures for registration of vendors were established in early 1996, and that they have been incorporated into section 5 of the revised Procurement Manual. The second part of this recommendation relates to the actions taken regarding guidelines on methods of invitation to bid. Again, the Secretary-General wishes to inform the General Assembly that such guidelines were established in early 1996, and that they have been incorporated into section 6 of the revised Procurement Manual.

> **"11. *Also regrets* that the information requested in paragraphs 18 and 37 of its resolution 51/231 was not provided in the report of the Secretary-General, and emphasizes that immediate action should be taken for the full implementation of the resolution"**

13. The Secretary-General acknowledges that, as recommended by the General Assembly, he has asked the Office of Internal Oversight Services to conduct an investigation into the insufficient use of expertise in procurement planning, which led to the payment for aircraft services not utilized and to report to the Assembly at its fifty-third session on its findings and recommendations. This investigation is still in progress.

> **"12. *Further regrets* that, despite the initial efforts of the Secretary-General, the supplier roster is still not representative of the membership of the Organization, and requests him to intensify further and focus his efforts to broaden the geographical base of the supplier roster"**

14. The Secretary-General respectfully refers the General Assembly to paragraphs 16 to 23 of his previous report (document A/52/534 and Corr.1 of 27 October 1997), in which he set forth in detail the intensified efforts he has undertaken to establish the United Nations supplier roster on as wide a geographical basis as possible. Indeed, the Secretary-General noted that he was fully committed and had spared no effort to achieve that goal, and he wished to reassure the Assembly of his continuing commitment in that regard. The number of provisionally and fully registered vendors has increased from 2,989 in 1997, representing 79 countries, to 3, 946 in 1998, representing 91 countries. Notwithstanding that progress, the Secretary-General firmly believes that further improvements are possible, and he shall continue to insist that every effort be made towards that end. He has thus instructed the Procurement Division to attend, whenever possible, business seminars, exhibitions, trade fairs and other group meetings with interested suppliers and representatives from Member States so as to engender interest in, as well as to provide guidance on, doing business with the United Nations. Finally, the Secretary-General wishes to inform the Assembly that the United Nations is working with other organizations in the United Nations system to establish a common supplier database, whereby the participating organizations will share information on suppliers, including supplier performance evaluations. It is expected that the use of the database will increase the efficiency of the Procurement Division as well as expand the list of potential qualified suppliers from around the world from which it may solicit bids and proposals.

> **"13. *Requests* the Secretary-General to take all possible measures to increase procurement from developing countries and countries with economies in transition, including the following measures: (a) all invitations to bid should be posted on the Procurement Division Web site home page as soon as they are prepared, in accordance with the Financial Regulations and Rules of the United Nations; (b) all invitations to bid should be sent to permanent missions, as well as to all United Nations information centres and other United Nations offices; (c) Procurement Division officials may undertake visits to developing countries and countries with economies in transition to attend seminars and exhibitions, with a view to identifying potential vendors from those countries; (d) all commercial opportunities should be published in *Development Business**..."**

15. The Secretary-General agrees with the general thrust of this request. Moreover, as he has already noted, in paragraph 17 of document A/52/534 and Corr.1, that efforts were being made to identify potential vendors in developing countries and in countries with economies in transition, and to increase the representation from those countries in the bidding for and award of contracts. Details of efforts to develop a supplier roster with as wide a geographical base as possible had been provided in a previous report on procurement (A/C.5/51/9, paras. 18-27). With respect to the specific recommendations set forth in the resolution, the Secretary-General wishes to note that all procurement in

* Published by the Department of Public Information of the Secretariat.

excess of $200,000 (the threshold required for review by the Headquarters Committee on Contracts) is now being advertised by the Procurement Division on its Web site home page, whenever adequate lead time is provided by the requisitioning department. In addition, such advertisements will be transmitted electronically to all permanent missions in New York that have on-line capabilities and to all United Nations information centres throughout the world. In this connection, the permanent missions have already been contacted for their e-mail addresses, and those that have not yet responded are respectfully encouraged to do so. Permanent missions are also requested to advise qualified suppliers from their respective countries to contact the Procurement Division immediately so that any unregistered vendors can proceed to obtain a registration application, seek to qualify for inclusion on the supplier roster, and thus become eligible to receive formal bid documents and to compete for United Nations procurement. It is expected that advance notice on anticipated procurement activities, as referred to in paragraph 9 above, will also broaden the pool of potential suppliers. The Secretary-General also wishes to note that, since his previous report was issued, in October 1997, officials of the Procurement Division have attended business seminars, exhibitions and trade fairs in 13 countries, including the host country. Finally, the Secretary-General notes that *Development Business* is published bimonthly and, to the extent that adequate lead time is provided by the requisitioning departments, all procurement in excess of $200,000 is also published in that paper.

> **"14. *Also requests* the Secretary-General to examine ways to increase opportunities for developing countries in the award of procurement contracts, in particular least developed countries, African countries and countries with economies in transition, taking into account the experience of preferential treatment in this regard in the funds and programmes of United Nations organizations and other intergovernmental institutions, and to report thereon to the General Assembly at its fifty-third session"**

16. The Secretary-General acknowledges the need to reconcile the goal of increasing procurement opportunities for vendors from developing countries and countries with economies in transition with the need to obtain goods and services for the Organization based upon principles of economy and efficiency. In attempting to resolve this issue, the Secretary-General, as suggested by the General Assembly, has reviewed and considered the experience of UNDP in according preferential treatment to such vendors. Having done so, the Secretary-General wishes to report that the UNDP experiment produced no tangible results and that the Executive Board ultimately abandoned it after a number of years. Moreover, as suggested at informal sessions, the Procurement Division has also contacted the World Bank, which has advised that it, too, does not have such a policy of providing preferential treatment in its procurement practices. Accordingly, the Secretary-General believes that the most appropriate and practical way to increase the participation of vendors from developing countries and countries with economies in transition in the award of United Nations procurement is through their enrolment in the supplier roster.

> **"15. *Further requests* the Secretary-General to examine the possibility of awarding procurement contracts to equally qualified vendors from countries that are current in the payment of their assessed contributions, taking into account the experience of other intergovernmental institutions with such practices, and to report thereon to the General Assembly at its fifty-third session"**

17. The Secretary-General does not believe, as a policy matter, that he should take a position on this proposal. He would like to note, however, that as a practical matter such practice could clearly have negative, and at times unintended, consequences for the Organization, including the disruption of services and the escalation of costs. The Secretary-General thus respectfully suggests that the General Assembly consider the matter further.

> **"16. *Requests* the Secretary-General to develop a standard procedure for the preparation of performance evaluation reports on suppliers, as requested by the General Assembly in paragraph 15 of its resolution 51/231"**

18. The Secretary-General agrees with this recommendation. Accordingly, effective 1 October 1998, all requisitioning departments will be required to complete a supplier performance report. Such supplier performance reports must be completed at appropriate intervals during as well as at the completion of the contract, and promptly returned to the Procurement Division. The information will eventually be recorded electronically and shared throughout the United Nations system through the common supplier database referred to in paragraph 14 above.

"17. *Reiterates* its concern about the use of suppliers recommended by requisitioners and, noting that this practice undermines the principle of segregation of responsibilities between requesting and procurement entities, requests the Secretary-General to discontinue the practice"

19. The Secretary-General agrees that requisitioning departments or offices should not, as a general rule, recommend suppliers. Such practice undermines the basic principle of segregation of responsibilities between the requisitioning and procurement entities and may create an appearance of conflict of interest. Thus, when such a recommendation is received by the Procurement Division (which should be in exceptional circumstances only), the procurement officer must carefully evaluate and scrutinize the desirability and propriety of including the recommended supplier on the invitee list. However, unless the procurement officer is fully satisfied that the recommended supplier will bring special knowledge or expertise that will be beneficial to the proposed procurement as opposed to being merely an addition to an already satisfactory and sufficient list of potential invitees, the recommended supplier should be excluded. Where, however, the procurement officer believes that such a supplier should be invited to tender, then the concurrence of the Chief of the Procurement Division must first be obtained. In addition, no consultant who has been engaged to prepare or review technical specifications or otherwise to assist in the evaluation of bids or proposals should be allowed to recommend any suppliers for the proposed procurement or itself to tender any bids or proposals.

"18. *Requests* the Secretary-General to revise paragraphs (*f*) and (*g*) of financial rule 110.19 to include professional services, medicines, medical supplies, hospital or surgical supplies and prosthetic appliances in the open bidding process"

20. The Secretary-General wishes to advise the General Assembly, that this request has been fully implemented effective April 1998.

"19. *Emphasizes* that the procurement of goods and services in the field missions could be sourced competitively at the local or regional level"

21. The Secretary-General respectfully refers the General Assembly to paragraphs 10 and 11 of his report contained in document A/C.5/51/9 and to paragraph 28 of document A/52/534 and Corr.1, in which he noted that the thresholds for the delegation of local procurement authority for offices away from Headquarters, including peacekeeping missions, were increased effective 15 August 1996. Such revised delegations of authority gave local committees on contracts the increased authority to consider cases ranging from $50,000 to $200,000, whereas the prior thresholds, although varying in amount, were generally limited to procurement valued at less than $70,000. Increasing such thresholds was designed to encourage and facilitate local procurement and to address the General Assembly's concerns in that regard. Moreover, the Secretary-General would like to observe that, concomitantly, those delegations of authority were revised so as to permit such procurement to be effected not only from a limited local procurement area, but on a worldwide basis from any Member or Observer State.

"20. *Notes* the progress made in the area of staff training, and requests the Secretary-General to develop further a formal training programme for all procurement staff"

22. The Secretary-General appreciates the recognition of the progress that has been made in the area of staff training. In this regard, the Secretary-General would like to observe that such training has been intensified so that, during the past six months, procurement officers were afforded the opportunity to attend 10 separate seminars on such varied matters as cost and price analysis, personnel management, conflict resolution, including arbitration, and the United Nations Integrated Management Information System/Reality computerized procurement system.

"21. *Reiterates its decision* that all procurement-related functions should be performed only by United Nations staff, and requests the Secretary-General to phase out gratis personnel from the Procurement Division expeditiously, and no later than 31 July 1998"

23. The Secretary-General is pleased to inform the General Assembly that all five gratis personnel seconded to the Procurement Division by the Governments of France, Ireland, Norway, Spain and the United States of America have been phased out effective 15 July 1998. The Secretary-General is most appreciative of the very valuable assistance provided to the Division by the Governments concerned.

"22. *Requests* the Secretary-General to review the organizational structure of the Procurement Division in order to ensure effective and efficient management, taking into account the implementation of procurement reform, including the recommendations contained in the reports of the Advisory Committee, the Board of Auditors and the Office of Internal Oversight Services, and to report thereon, through the Advisory Committee, to the General Assembly"

24. The Secretary-General wishes to observe that ongoing review and revision of the organizational structure of the Procurement Division remains an integral part of the reform of the United Nations procurement system. In this regard, it may be recalled, that prior to 1996, the former Purchase and Transportation Service was divided into one transportation and two procurement sections, the latter being based on where the goods and services were to be delivered or performed: a Headquarters and Regional Offices Procurement Section and a Field Missions Procurement Section. However, effective 1 January 1996, the Purchase and Transportation Service was restructured and renamed the Procurement and Transportation Division. That Division was organized into three sections: the Transportation Section, the Commodity Procurement Section and the Support Services Section, with the intention that the existing D-1 post would be upgraded to a D-2 post for the Director. The new organizational structure for procurement was commodity-based, with the Commodity Procurement Section being organized into various clusters, each being responsible for an identifiable range of commodities. Thus, the emphasis was changed to the commodity or service being procured rather than on the location of the office or field mission for which it was being purchased. Among other things, it was assumed that this approach would maximize economies of scale and develop institutional expertise with respect to specific goods and services. The detailed functions of the Commodity Procurement Section and each of its clusters were set forth in paragraphs 11 to 19 of document A/C.5/50/13/Rev.1, dated 9 February 1996. Subsequently, on 1 July 1997, the Transportation Section was spun off and established as a separate Travel and Transportation Service, reporting directly to the Assistant Secretary-General for Central Support Services. The Procurement and Transportation Division was then renamed the Procurement Division, which reflects more appropriately the responsibilities of the Division. As noted in paragraphs 3 to 7 and annex I to document A/52/534 and Corr.1, the Procurement Division was then restructured into two Commodity Procurement Sections, each with four clusters, and one Support Services Section. This remains so even after the transfer of the procurement function of the Department of Development Support and Management Services, now part of the Department of Economic and Social Affairs, to the Procurement Division, effective February 1998. A current organizational chart for the Procurement Division is attached as an annex to the present report. It is the intention of the Secretary-General to continue to review the organizational structure of the Procurement Division in the coming months, especially in the context of common services. The Secretary-General will keep the General Assembly apprised of this review.

25. The Secretary-General wishes to reiterate that the establishment of the post of Director of the Procurement Division is essential to providing the appropriate level of executive direction and management. To focus critical attention on the dollar value of the procurement effected by the Procurement Division or the inclusion or exclusion of transportation services as part of its mandate, as has been done repeatedly in the past, is to miss the larger, more important picture. The head of the Procurement Division performs the function of a programme manager responsible for the day-to-day conduct of United Nations procurement activities under the general supervision of the Assistant Secretary-General for Central Support Services. The head of the Procurement Division also renders advice to, and at times performs procurement services for, other United Nations offices, commissions, tribunals, agencies and subsidiary organs. Within the United Nations system, the head of the Procurement Division is specifically responsible for promoting coherent and consistent procurement policies, practices and procedures designed to provide an appropriate balance between the Organization's interest as a whole and the needs of the requisitioning departments and offices in particular. Furthermore, the head of the Procurement Division should be able to exercise a leadership role in common services and other inter-agency endeavours in procurement. In order to discharge all of these significant responsibilities as well as the concomitant responsibility of interfacing effectively with other programme managers and senior programme managers throughout the Organization and with representatives of permanent and observer missions, the head of the Procurement Division simply must have the appropriate stature. It should be noted that the heads of procurement services of such organizations as the United Nations Children's Fund and the Inter-Agency Procurement Services Office of UNDP are already at the D-2 level. Accordingly, the General Assembly is once again requested to take immediate action on this recommendation, which has been postponed repeatedly, to the serious detriment of the

Division specifically and United Nations procurement activities system-wide generally.

> **"23. *Underlines* the need to maintain inventory records in accordance with the relevant regulations and rules"**

26. The Secretary-General agrees with this recommendation and has reminded the appropriate departments and offices within the Secretariat of the need to maintain inventory records in accordance with the relevant regulations and rules.

> **"24. *Requests* the Secretary-General to entrust the Office of Internal Oversight Services with conducting a comprehensive review and analysis of the procurement-related arbitration cases and to report to the General Assembly at its fifty-third session on measures to be taken"**

27. The Secretary-General acknowledges that, as recommended by the General Assembly, he has asked the Office of Internal Oversight Services to conduct a comprehensive review and analysis of the procurement-related arbitration cases and to report to the Assembly at its fifty-third session on the measures to be taken. This review is still in progress.

> **"25. *Also requests* the Secretary-General to define and publish the procedures governing the role of the ombudsman and to examine the feasibility of assigning that position to a division other than one under the direct authority of the Assistant Secretary-General for Central Support Services"**

28. The Secretary-General wishes to recall that in the December 1994 report of the High-level Group of Experts on Procurement, the creation of an ombudsman in the Department of Administration and Management was recommended. According to the Group of Experts, the role of the ombudsman is to hear complaints of disappointed bidders and others who feel they have been unfairly treated by the procurement system, which would provide a systematic means for dealing with the meritorious grievances of suppliers. Upon receiving such a complaint, the ombudsman will review the underlying facts and circumstances and furnish the bidder with the findings as to the propriety of the procurement process and the decision taken. Where appropriate, the ombudsman will also meet with the bidder and/or the Chief of the Procurement Division to hear, first-hand, their respective viewpoints. In the event that the ombudsman agrees with the bidder, a recommendation will be made to the Chief of the Procurement Division as to the appropriate corrective action to be taken. Where the Chief of the Procurement Division does not agree with the recommendation of the ombudsman, however, the matter will be referred to the Assistant Secretary-General for Central Support Services for a final decision. The Secretary-General also wishes to recall that, in paragraph 58 of document A/C.5/51/9, he advised the General Assembly that, owing to the current overall budgetary constraints and consistent with the recommendation of the Group of Experts, the functions of the ombudsman should continue to be performed by the Assistant Secretary-General for Central Support Services and, as necessary by the Under-Secretary-General of the Department of Management as well. The Secretary-General continues to believe that this arrangement is appropriate and adequate. However, the proposal concerning the creation of a separate, independent ombudsman will be kept under review.

> **"26. *Regrets* the continued delay in the publication of the procurement manual, and notes with concern the apparent absence of effective communication between the various key Secretariat departments involved in its preparation"**

29. As indicated in paragraph 4 above, the Secretary-General is pleased to confirm that the revised Procurement Manual (version 01) dated 31 March 1998 has already been issued.

> **"27. *Requests* the Secretary-General to examine alternative methods of collecting statistical data in order to provide a more transparent view of the true national provenance of companies benefiting from procurement contracts"**

30. The Secretary-General, as recommended by the General Assembly, has developed a single format for the provision of data for procurement undertaken at Headquarters as well as in the field. Commencing with calendar year 1998, such data shall be reported to the General Assembly annually.

"28. *Also requests* the Secretary-General to submit proposals on possible amendments to the Financial Regulations and Rules of the United Nations and the Staff Regulations and Rules of the United Nations in order to address issues of potential conflict of interest, such as the employment of former United Nations procurement officers by United Nations suppliers and vice versa"

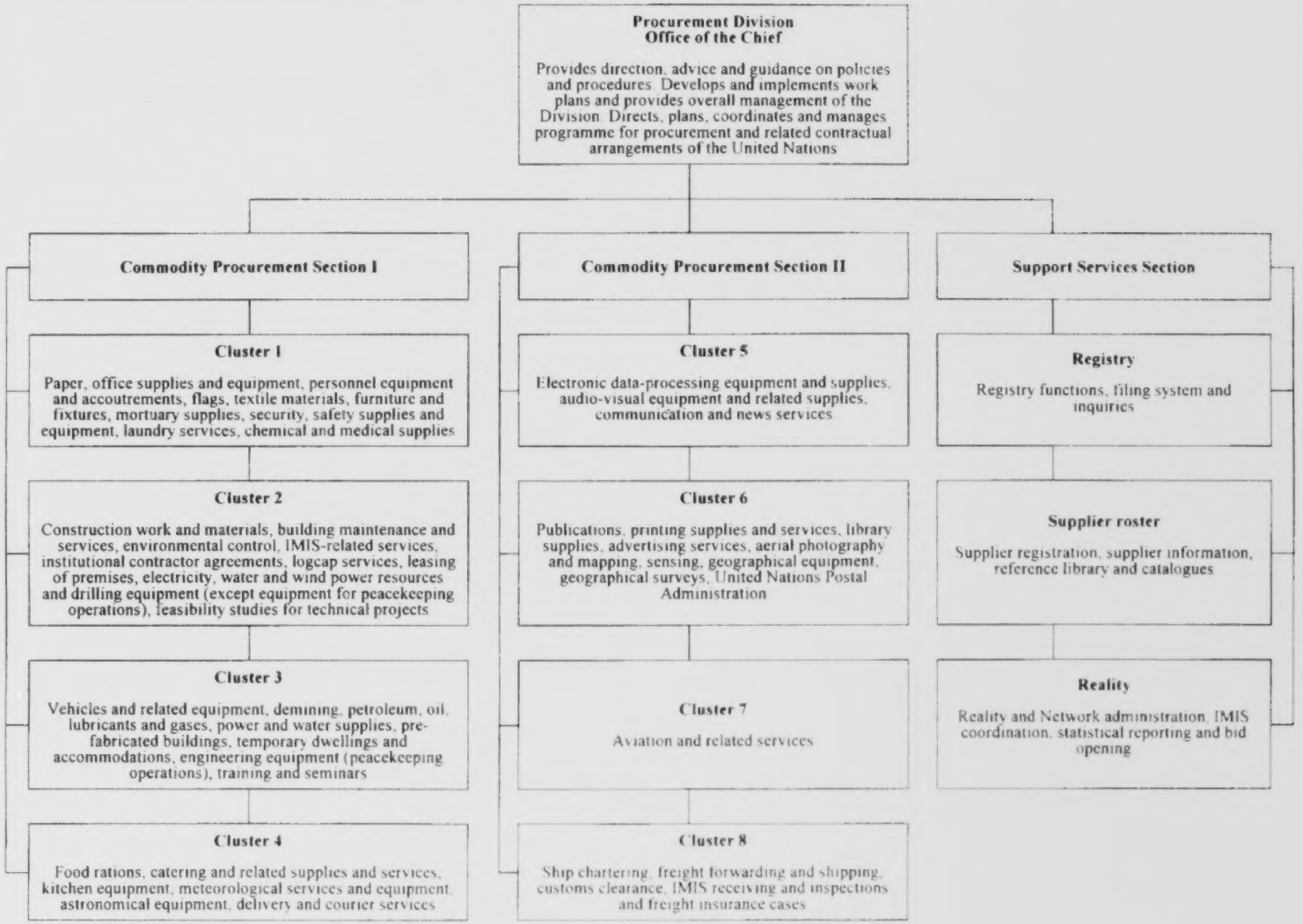
31. The Secretary-General wishes to recall that he has submitted a proposed Code of Conduct to the General Assembly in document A/52/488 of 17 October 1997, which addresses such issues as potential and actual conflicts of interest. Moreover, as stated in paragraph 10 of that report, once the Code is adopted, various subsidiary issues will be considered, such as the matter of the employment of former United Nations staff members by United Nations vendors and vice versa. Finally, the Secretary-General would like to note that proposed regulation 1.2 (j) requires staff members to keep information confidential even subsequent to separation from service.

III. Conclusion

32. As will be noted from the above, the recommendations, decisions, suggestions and concerns expressed by the General Assembly, the Advisory Committee on Administrative and Budgetary Questions and the oversight bodies, as well as the High-level Group of Experts on Procurement, have all been addressed and implemented, except to the very limited extent indicated in the present report. In this regard, the Secretary-General wishes to observe that all of the items enumerated in annex II of document A/52/534 and Corr.1, entitled "Target dates for work plan of the Procurement Division", have also been fully implemented. The Secretary-General wishes to reiterate his view that the staff in the Procurement Division are generally well-trained and hard-working professionals who are motivated to carry out the tasks entrusted to them, despite the heavy demands and pressures of time. The Secretary-General also wishes to reiterate his belief that the establishment of the post of Director remains critically important. Finally, the Secretary-General wishes to express his appreciation to the General Assembly, the Advisory Committee on Administrative and Budgetary Questions, the Board of Auditors and the Office of Internal Oversight Services for their valuable advice and guidance in helping to achieve and effect procurement reform.

Annex

Organization chart of the Procurement Division


Procurement Division
Office of the Chief
Provides direction, advice and guidance on policies and procedures. Develops and implements work plans and provides overall management of the Division. Directs, plans, coordinates and manages programme for procurement and related contractual arrangements of the United Nations
Commodity Procurement Section I
Commodity Procurement Section II
Support Services Section
Cluster 1
Paper, office supplies and equipment, personnel equipment and accoutrements, flags, textile materials, furniture and fixtures, mortuary supplies, security, safety supplies and equipment, laundry services, chemical and medical supplies
Cluster 2
Construction work and materials, building maintenance and services, environmental control, IMIS-related services, institutional contractor agreements, logcap services, leasing of premises, electricity, water and wind power resources and drilling equipment (except equipment for peacekeeping operations), feasibility studies for technical projects
Cluster 3
Vehicles and related equipment, demining, petroleum, oil, lubricants and gases, power and water supplies, pre-fabricated buildings, temporary dwellings and accommodations, engineering equipment (peacekeeping operations), training and seminars
Cluster 4
Food rations, catering and related supplies and services, kitchen equipment, meteorological services and equipment, astronomical equipment, delivery and courier services
Cluster 5
Electronic data-processing equipment and supplies, audio-visual equipment and related supplies, communication and news services
Cluster 6
Publications, printing supplies and services, library supplies, advertising services, aerial photography and mapping, sensing, geographical equipment, geographical surveys, United Nations Postal Administration
Cluster 7
Aviation and related services
Cluster 8
Ship chartering, freight forwarding and shipping, customs clearance, IMIS receiving and inspections and freight insurance cases
Registry
Registry functions, filing system and inquiries
Supplier roster
Supplier registration, supplier information, reference library and catalogues
Reality
Reality and Network administration, IMIS coordination, statistical reporting and bid opening